More to Come from Byggmax

Stockholm (HedgeNordic) – Earlier this year and yet again on Monday, the team running **Chelonia Market Neutral** said Swedish do-it-yourself retailer Byggmax was trading at a deep discount to peers and urged its Board of Directors to address the over-capitalization and initiate a share buy-back. Three days later, Byggmax, Chelonia Market Neutral's second-largest holding, announced the initiation of a share buy-back program and saw its share price rise in response.

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Byggmax, the retailer of do-it-yourself (DIY) products and building materials with 180 stores in Sweden, Norway and Finland, had been enjoying strong operational and financial performance before the acquisition of online-based retailer Skånska Byggvaror in early 2016. Like-for-like sales growth soon turned negative and operating profit margins shrank over the next few years. With the "stay-at-home effect" due to the coronavirus pandemic boosting the Nordic consumer market for building materials and with new leadership, Byggmax's operating performance has now been rejuvenated.


Anders Palmqvist

"Old mistakes have been fixed by the new and highly skilled management team," says Anders Palmqvist, the CEO and CIO of Archipelago Investments – which runs Chelonia Market Neutral, mentioning the turnaround of the poor acquisition of Skånska Byggvaror, the turnaround of Byggmax Finland and the upgrade of the entire technology platform. "Importantly, under the new leadership of CEO Mattias Ankarberg, the discount concept has been modernized with updated assortment and higher quality perception but still with the lowest price," continues Palmqvist. "In other words, Byggmax's and Mattias Ankarberg's initiatives have driven sales growth and market share grab."

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In late 2018, Byggmax started an initiative to modernize and upgrade its stores with the so-called 3.0 store concept, a new store format with a honed product range, improved customer flow and more buying guides.“Byggmax store upgrades (3.0) have improved sales with 6 percent per store and with higher-margin products,” says Magnus Angenfelt, the fund manager running Chelonia Market Neutral. “50 percent of stores are now upgraded, but 50 percent more to come,” he adds. “New stores have opened, 10 in 2020, aiming for 12 in 2021 and more in 2022 and onwards with a potential of total 280 stores versus a total of 169 in 2020.”

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Magnus Angenfelt

“E-commerce has delivered very strong growth, too, and now accounts for 25 percent of Byggmax total sales. Significant progress has been made within e-commerce in the last few years with larger assortment and many more delivery options,” continues Angenfelt. Byggmax recently acquired Norwegian tiles discounter Right Price Tiles with a small yet fast-growing e-commerce business and plans further Nordic growth in the tiles category and new concept stores under the Byggmax brand. “This follows the recent expansion to Denmark following the acquisition of NLT, a founder-led discount DIY retailer with 30 percent of sales from e-commerce.”

Will the “stay-at-home effect” fade away?

Byggmax’s operating performance has greatly benefited from the “stay-at-home effect” stemming from coronavirus pandemic restrictions. The retailer’s like-for-like sales growth for 2020 reached 28.5 percent, with like-for-like sales increasing a further 11.4 percent in the first half of 2021 over the same period of 2020. More importantly, Byggmax has grown more than the market and increased market share. Byggmax’s operating income margin increased from 4.4 percent in 2019 to 9.8 percent in 2020 and 11.4 percent for the first half of 2021. However, market participants seem to expect the positive contribution from the “stay-at-home effect” to slow down and that market share will stop growing.

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Anders Palmqvist expects the “stay-at-home effect” to fade away “to some extent but not as much as the market currently discounts in the share price.” Palmqvist and his team “share the management’s view that the market will be higher after the pandemic compared to before the pandemic.” According to the CEO of Archipelago Investments, “some trends will last for much longer and are not entirely pandemic-related. Home plays a bigger role in consumers’ lives, consumers spend more on homes. There is a new generation of DIYers, the discount trend and e-commerce are accelerating. Byggmax will also continue to grow market share.”

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“Byggmax is in a very strong position as a price leader, lowest cost operator in the industry, successful both in stores and online and combines it well with click@collect,” says Palmqvist. “The company has a very strong balance sheet and remains exposed to favorable trends. Mattias Ankarberg’s new initiatives connected to Byggmax’s core business will also further drive growth in market share and improved profitability in 2022 and onwards,” he continues, mentioning the entry in Denmark, Byggmax Compact, and a new e-commerce push. “Longer term, we believe that the Byggmax concept as such could be relevant for more markets outside the Nordics, particularly as Byggmax is increasingly stronger on e-commerce that offers products for all home improvement projects.”

Ideas for unlocking share price potential

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Byggmax appears undervalued relative to its significantly higher valued peers. “Historic mismanagement and mishaps and the assumption that most, if not all, sales growth is pandemic related and will fade away in 2022,” Magnus Angenfelt explains Byggmax’s low relative valuation. Angenfelt says the “company management and CEO Mattias Ankarberg should continue implementing his initiatives and continue to grow market share and e-commerce. That is his key task.” Angenfelt goes on to add that “Mattias is in our view one of the best retail CEOs out there, if not the best. We agree with management and believe there is a SEK 4-5 billion sales potential from existing initiatives.”

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“We also think the Board and the CEO are low balling the EBITA margin targets in order to over-deliver,” says Palmqvist. “We firmly believe the Board and CEO should commit to a more realistic, and higher margin, 8 percent or higher as opposed to the 7-8 percent margin target. We would be very disappointed if Byggmax and Mattias are not able to deliver a +8 percent margin.”

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In addition, “the company is not running with an optimal capital structure at the moment,” argues

Palmqvist. “We have urged the Board to initiate a share buy-back for some time now, and are very pleased to note the Board today has acted on this and share our view.” Byggmax announced a share buy-back program to repurchase up to SEK 200 million worth of shares, or maximum five percent of the company’s outstanding shares. “The stock is valued very low in absolute terms and relative peers. As such, an extra dividend is not the best way to handle the over-capitalization,” says Palmqvist. “Furthermore, a dividend is less attractive for international investors facing withholding tax on dividends. If the company can buy back stock at low prices versus paying extra cash dividend, we will also benefit more as long-term shareholders.”

“Our main concern is that we will not be able to be part of this growth journey and that private equity or a competitor will make a bid on Byggmax,” concludes Palmqvist. “There is no controlling or blocking shareholder.”

Picture Courtesy of Byggmax. By Jana Eriksson.